



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

December 18, 2003

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

SACRAMENTO UPDATE

Governor Announces Plan To Authorize VLF Backfill Payments

Today, the Governor announced that he will authorize payments to local governments under a provision of last year's State Budget Act that allows for deficiency appropriations. Under Section 27 (a) and (b), the Director of Finance may transfer an amount from any item of appropriation that is necessary to avoid a deficiency provided that the transfer does not exceed more than 5 percent of the appropriation for any item. According to the Administration, this action would not require any immediate action by the Legislature.

The complete text of the Department of Finance Section 27 Letter is in Attachment I. It shows that \$148.8 million is being transferred from various Budget Items to Item 9100-102-0001—Local Assistance, Tax Relief for disbursement to counties and cities. In addition, the Finance letter shows that the federal In-Home Supportive Services item is being increased by \$41.1 million in order to free-up an equal amount of State General Funds which will be added to the funds made available by the reductions listed in the Finance letter.

Some of the reduction highlights are as follows:

- Department of Rehabilitation—Caseload savings in Vocational Rehabilitation Services....\$854,000

- Department of Child Support Services—Unspent funds due to program delays....\$566,000
- Department of Child Support Services, Local Assistance—Administration—Unspent funds due to program delays....\$1,069,000
- University of California—Various reductions including unallocated, outreach and labor studies....\$29,928,000
- California State University—Unallocated....\$12,453,000
- Student Aid Commission—Saving from unspent Cal Grants....\$50,000,000

The Governor's action depends on this and *subdivisions (d) and (e)* of Section 27 which permit "emergency expenditures" which can be incurred "in response to conditions of disaster or extreme peril that threaten the health or safety of persons or property within the state." An emergency expenditure requires notification to the Chairperson of the Joint Legislative Budget Committee and the chairs of the appropriation committees within 10 days. Section 27 also requires the Finance Director to notify the chairs of each budget committee when the Proposed State Budget is introduced in January and they are to introduce legislation to appropriate the necessary funds and to enact appropriate legislation by March 1, 2004. The Governor's press release is silent on this requirement.

In essence, the Governor is relying on authority in the State Budget Act to make deficiency appropriations, define the appropriation as an emergency expenditure to shorten the time for legislative notification from 30 days to 10 days, and take advantage of the Section 27 requirement that the Legislature appropriate the funding by March 1, 2004. A copy of Section 27 is Attachment II.

Senator Burton was quoted as saying that the action was of questionable legality and that the Legislature must appropriate the funds before local governments can receive any funding. A press release from the State Controller's Office (Attachment III) supports the Governor's action indicating that the Administration's proposal would continue the backfill and ensure that local governments are kept whole through the end of this fiscal year. Speaker Wesson commented that the Governor's actions will help local governments today, but the fundamental question concerning the source of funding is unanswered (Attachment IV).

The Controller's Office is currently working with the Departments of Finance and Motor Vehicles to determine the exact amounts of cash available for the restorations. They are attempting to accomplish the restoration as a part of their regularly scheduled December 26 disbursement. It is not at all clear that the December 26 target date can be met. If it is not, they expect to make the disbursements by December 28 or 29. It is likely that they will have details on the amount of the restorations by tomorrow evening, and they will provide the information as soon as it becomes available.

The Governor's action is positive in terms of the immediate cash flow needs of the County, but it potentially creates a \$2.5 billion dollar deficiency over and above the \$148.8 million reductions made pursuant to Section 27. The Governor, however, has identified \$1.8 billion of this \$2.5 billion amount which will come from higher than anticipated revenue receipts and projections through the end of this fiscal year. The source or sources of the funds to cover the remaining deficiency have not been identified, which may mean ultimately that counties are subject to other reductions in the Governor's January Budget and the Budget that is finally enacted.

We will continue to keep you informed.

DEJ:GK
MAL:DW:ib

Attachments

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities
 City Managers Associations
 Buddy Program Participants

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Press Release



OFFICE OF THE GOVERNOR

GAAS:36:03
FOR IMMEDIATE RELEASE
12/18/2003

Governor Provides Immediate Funding For Counties, Cities 12/18/03

SACRAMENTO

Governor Arnold Schwarzenegger today exercised his executive branch power to ensure that scheduled payments will be made to cities and counties.

"I was elected by the people of this state to lead; since the Legislative leadership refuses to act, I will act without them," said Governor Schwarzenegger. "We must protect the people in this state and give the cities and counties the money we owe them."

Flanked by law enforcement, fire personnel, and supervisors, the Governor today announced his decision to invoke mid-year budget authority granted to the Governor by the Legislature. Section 27 of the 2003 Budget Act allows the Governor to spend approximately \$2.7 billion for local governments over the balance of the current budget year.

The section also gives the Governor new authority to redirect up to five percent of a specific appropriation item into another category. Schwarzenegger invoked this new authority to redirect nearly \$150 million in current-year spending to provide funds to local governments.

The Governor also announced that the Department of Finance has informed him that revenue receipts and projections through the end of this fiscal year will be \$1.8 billion higher than anticipated.

"I support local governments here today just as I did when the mayors of the state visited the Capitol weeks ago," said the Governor. "I had the responsibility to correct the error of the previous administration."

This action upholds the Governor's promise to provide local governments with the funds for essential local services -- including fire and police services. Attached is a copy of Finance Director Arduin's letter to the Legislature notifying them that the Administration is invoking the authorities under Section 27.

[Notification of Department of Finance Position on Deficiency Authority](#)

[Section 27 Authority](#)

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ARNOLD SCHWARZENEGGER, GOVERNOR
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

December 18, 2003

Honorable Wesley Chesbro, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Jenny Oropeza, Chair
Assembly Budget Committee

Honorable Dede Alpert, Chair
Senate Appropriations Committee

Honorable Darrell Steinberg, Chair
Assembly Appropriations Committee

Notification of Department of Finance Position on Deficiency Authorization

Section 27.00

In order to fulfill the Governor's commitment to provide resources to local governments related to the state's car tax, the Department is transmitting notification of our intent to adjust current year expenditures, pursuant to the provisions of Section 27.00(b) of the 2003 Budget Act, as well as our emergency approval to spend at a rate that will incur a deficiency pursuant to Sections (d) and (e) of the 2003 Budget Act.

Absent an action by the State, we estimate that as of January 10, 2004, local governments will be owed approximately \$530 million in non-realignment vehicle license fee (VLF) revenues, including amounts previously withheld for taxpayer refunds, as well as new offset amounts that have not been funded due to the lack of an adequate General Fund appropriation. While this estimate of the amount owed to date is subject to adjustment and the actual amount will vary depending on the level of overpayments and refunds, the total amount of VLF revenue shortfall for the entire 2003-04 fiscal year is approximately \$2.652 billion.

Local governments rely on these funds for a variety of services including essential public safety purposes. In addition, certain counties have pledged these funds as a source of repayment for bonded indebtedness. Continued uncertainty over when these payments will resume will compel local governments to contemplate layoffs and other reductions. Failure to promptly pay these funds would constitute a situation of extreme peril that threatens the health and safety of persons and property. Moreover, Section 10754 of the Government Code provides the State shall pay local government an amount equal to the VLF offsets.

Therefore, the Department of Finance has approved a deficiency appropriation in the amount of \$2,503,164,000 from the General Fund to replace the revenue loss to local governments from VLF offsets. The 2003 Budget Act provided an in-lieu appropriation of \$1,000 for this purpose because, at that time, the offset was suspended pursuant to actions taken by the prior Administration. Except for an initial gap period as detailed below, local governments were expected to receive funding from higher taxpayer payments, so replacement revenues were not believed necessary.

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Chapter 231, Statutes of 2003, anticipated that local governments would loan \$825 million to the General Fund in the first part of the fiscal year due to the lag, or gap, in implementing the higher vehicle license fees. Pursuant to Chapter 231/03, this loan would be repaid in 2006-07. In November 2003, the Department of Motor Vehicles provided estimates to the Department of Finance that indicated that the amount of loan from local governments due to the implementation lag had increased to nearly \$1.3 billion, rather than the \$825 million that had been anticipated.

On November 17, 2003, Governor Schwarzenegger issued Executive Order S-1-03, which stated that the prior Administration's suspension of the VLF offsets was in error in that it was not based on a reasonable interpretation of the statutes. The Executive Order therefore rescinded the offset suspension and directed the Department of Motor Vehicles to reinstate the offset as soon as administratively feasible.

In addition, on November 17, 2003, Governor Schwarzenegger convened a special session of the Legislature to, among other things, act upon legislation to fund the offset of motor vehicle license fees from the General Fund. In its mid-year spending proposals, the Administration indicated that fully funding the offset in excess of the \$825 million loan amount would require \$3.625 billion. However, consistent with the loan provisions in Chapter 231/03, the Administration requested the Legislature to increase the local government loan from \$825 million to \$1.3 billion due to the implementation lag. As a result, the proposed appropriation required to fund the VLF offset for the remainder of the 2003-04 fiscal year was reduced to \$3.15 billion based on the 2003 Budget Act estimates. Unfortunately, the Legislature recessed without acting upon this request.

In assessing the funding needs for this program during the development of the 2004 Governor's Budget, we now estimate that the amount needed to fund the offset in the 2003-04 fiscal year is \$2.652 billion over the \$1.3 billion "gap" amount.

The Department of Finance will be transferring a total of \$148,836,000 of expenditure authority from the items noted below to Item 9100-102-0001. These items are all included as part of the 2003-04 Mid-Year Spending Reduction Proposals and in accordance with Section 27.00(b) of the 2003 Budget Act, the transfer does not exceed 5 percent of the total appropriations for these items.

<u>Item 2240-101-0001</u>	-\$140,000
Housing and Community Development—Close Low-Occupancy Migrant Farmworker Housing Center in Blythe	
<u>Item 2740-001-0001</u>	-\$30,000
Department of Motor Vehicles—Reduce General Fund Support	
<u>Item 5160-001-0001</u>	-\$854,000
Department of Rehabilitation—Caseload Savings in Vocational Rehabilitation Services	
<u>Item 5175-001-0001</u>	-\$310,000
Department of Child Support Services—Unspent Funds due to Program Delays	

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<u>Item 5175-002-0001</u>	- \$566,000
Department of Child Support Services—Unspent Funds due to Program Delays	
<u>Item 5175-101-0001</u>	- \$1,069,000
Department of Child Support Services—Administration—Unspent Funds due to Program Delays	
<u>Item 5180-111-0001</u>	- \$41,100,000
Department of Social Services—Transfer Maximum Amount of Federal Funds from CalWORKs to Achieve General Fund Savings	
<u>Item 6440-001-0001</u>	- \$2,000,000
University of California—Reduce Funding for Labor Studies Unit	
<u>Item 6440-001-0001</u>	- \$15,719,000
University of California—Unallocated Reduction	
<u>Item 6440-001-0001</u>	- \$12,209,000
University of California—Outreach Funding	
<u>Item 6610-001-0001</u>	- \$11,276,000
California State University—Unallocated Reduction	
<u>Item 6610-001-0001</u>	- \$12,453,000
California State University—Outreach Funding	
<u>Item 6600-001-0001</u>	- \$302,000
Hastings College of Law—Unallocated Reduction	
<u>Item 7350-001-0001</u>	- \$808,000
Department of Industrial Relations—Current-Year Position Reductions	
<u>Item 7980-101-0001</u>	- \$50,000,000
Student Aid Commission—Savings from Unspent Cal Grant Funds	
<u>Item 9100-102-0001</u>	+ \$148,836,000
Local Assistance, Tax Relief	
Total	\$0

In addition, this action will result in the Controller allocating funds to local governments at a rate that will result in a deficiency of \$2,503,164,000 in Item 9100-102-0001.

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Section 28.00

In accordance with Section 28.00 of the 2003 Budget Act, the Department of Social Services requests authorization to increase federal expenditure authority within Item 5180-111-0890.

Item 5180-111-0890

The Department of Finance is also approving an increase in federal expenditure authority in Item 5180-111-0890. Increased authority is needed in the In-Home Supportive Services program to allow \$41.1 million in federal Temporary Assistance for Needy Families Block Grant funds to be transferred to the federal Social Services Block Grant and used to offset General Fund costs in the program. This, in turn, would allow General Funds to be redirected to Local Governments to offset the reduction in the Vehicle License Fee.

The Department believes that the actions being taken under Section 27.00 (b), combined with the mid-year spending reduction proposals still before the Legislature and proposals for savings forthcoming in the 2004 Governor's Budget, will provide sufficient savings in the 2003-04 fiscal year to ensure that the deficiency in Item 9100-102-0001 does not result in a 2003-04 General Fund deficit at the end of the fiscal year.

Please call Matt Paulin, Principal Program Budget Analyst, at (916) 322-2263 if you have any questions.



DONNA ARDUIN
Director

Attachment

cc: Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable John Campbell, Vice Chair, Assembly Budget Committee
Honorable Rick Keene, Assemblymember, Assembly Budget Committee
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Rudy Bermudez, Chair, Assembly Budget Subcommittee No. 4
Ms. Elizabeth Hill, Legislative Analyst (3)
Mr. Danny Alvarez, Staff Director, Senate Budget and Fiscal Review Committee
Ms. Anne Maitland, Staff Director, Senate Appropriations Committee
Mr. Jeff Bell, Fiscal Director, Senate Minority Fiscal Office
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Minority Fiscal Committee
Mr. Kevin Bassett, Chief Consultant, Assembly Republican Leader's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)

STATE OF CALIFORNIA
SECTION 28.00/28.50 APPLICATION
DF-47 (REV 05/97)

Department of Finance
915 - L Street
Sacramento, CA 95814
IMS Mail Code: A-15

Please report dollars in thousands.

DEPARTMENT Social Services	ITEM NO/ FISCAL YEAR 5180-111-0890 2003-04	NOTIFICATION LETTER TO LEGISLATURE: <input checked="" type="checkbox"/> 30 DAY NOTICE <input type="checkbox"/> REQUEST WAIVER OF 30 DAY NOTICE	
REQUESTED FUNDING ADJUSTMENT <input checked="" type="checkbox"/> SECTION 28.00 <input type="checkbox"/> Section 28.50	PROGRAM TITLE PER GOVERNOR'S BUDGET: Social Services and Licensing		
FUNDING (SPECIFY FUND)	CURRENTLY BUDGETED	REQUESTED CHANGE (+) OR (-)	TOTAL
0890 Federal (25.15.010)	61,389,576	+41,100,000	102,489,576

CHECK APPROPRIATE BOX(ES)

- ☒ PROVISIONS 1-4 OF SECTION 28 (B) HAVE BEEN SATISFIED. (Provide additional information as necessary.)
☐ ONE-TIME EXPENDITURE.
☐ ONGOING COMMITMENT FROM THIS SOURCE.
☒ STATE MATCHING FUNDS REQUIRED. (If checked, explain under program proposal.)
☒ EXPENDITURE EITHER SUPPLEMENTS OR REPLACES AN EXISTING STATE-FUNDED PROGRAM. (If checked, explain under program proposal.)

PROGRAM PROPOSAL (Attach additional information as necessary.)

TITLE: TANF to Title XX Transfer to IHSS Services	STATUTORY AUTHORITY: (State, federal, as appropriate) Section 28.00 Budget Act of 2002
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DESCRIPTION:

Increase federal expenditure authority in the In-Home Supportive Services (IHSS).

JUSTIFICATION: (Must include need for current year implementation and reason it can't wait till next fiscal year.)
Increased federal expenditure authority is requested for In-Home Supportive Services. State Legislation permits Title XX funds to be used in the IHSS Residual Program to supplant the State share. The Title XX Block Grant funds that were previously designated for IHSS have been replaced with TANF-Title XX Funds.

SUBMITTED BY:		APPROVED BY DEPARTMENT OF FINANCE:	
BUDGET OFFICER: <i>Andy Krause III</i>	DATE: <i>12/16/03</i>	DATE SUBMITTED TO LEGISLATURE: DEC 18 2003	
DIRECTOR: <i>Ameron Mitchell</i>	DATE: <i>12-16-03</i>	PPBA:	DATE:

SEC. 27.00. (a) Approval by the Department of Finance of the creation of deficiencies pursuant to Section 11006 of the Government Code or approval to expend at rates that, in the opinion of the Director of Finance, will require a deficiency appropriation, may be granted only in cases of actual necessity. It is the intent of the Legislature that authorization for deficiency spending under this section should be limited to cases of unanticipated expenses incurred in the operation of existing programs, where it is necessary to incur those expenses during the 2003–04 fiscal year. No deficiency authorization may be made under this section for any expenditure for capital outlay. No deficiency authorization may be made under this section for any expenditure attributable to a prior year, for any expenditure related to legislation enacted without an appropriation, for startup costs of programs that have not yet been authorized by the Legislature, for costs that the Governor had knowledge of in time to include in the May Revision, or for costs that the Governor had the discretion to incur or not incur.

(b) The Director of Finance may transfer from any item or items of appropriation an amount that the director determines to be necessary to avoid a deficiency in any other item or items of appropriation, except that the director may not transfer more than 5 percent of the total appropriation for any item nor shall the director transfer funds from any item if the transfer would, in the director's judgment, result in that item being reduced below the level needed to achieve the statutory requirements for which the item appropriates funds. No transfer of appropriation authority shall be effective sooner than 30 days following notification by the Director of Finance to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers appropriations, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine.

(c) The Director of Finance shall, at the time the Governor's Budget is introduced, notify the chairperson of the committee in each house of the Legislature that considers the state budget of the total amount of deficiencies approved pursuant to this section prior to the publication of the Governor's Budget. The chairperson of the committee in each house of the Legislature that considers the State Budget shall immediately introduce legislation to appropriate the necessary funds, and that legislation shall be enacted no later than March 1, 2004.

(d) The Director of Finance may not approve any deficiency authorization unless the approval is made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house of the Legislature that considers appropriations not later than 30 days prior to the effective date of the approval, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine, except for an approval for an emergency expenditure. The director shall include in the written deficiency request an explanation of why the director did not use the authority granted in subdivision (b) to reduce other items to avoid the deficiency. "Emergency expenditure," for this purpose, means an expenditure incurred in response to conditions of disaster or extreme peril that threaten the health or safety of persons or

property within the state. This notification requirement is not applicable to caseload increases in Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), and Supplemental Security Income/State Supplementary Program (SSI/SSP). All notifications shall include: (1) the date a deficiency request was received by the Department of Finance, (2) the reason for the proposed deficiency, (3) the approved amount, and (4) the basis of the department's determination that the expenditure for which the deficiency authorization is approved is required by a case of actual necessity. If the notification occurs after the publication of the Governor's Budget, the chairperson shall call a hearing of the Joint Legislative Budget Committee to consider whether the director's approval of a deficiency expenditure should be rejected. No approval of any deficiency authorization may be made by the director after May 15, 2004, except for the approval of an emergency expenditure.

(e) Approval for any emergency expenditure shall be made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house of the Legislature that considers appropriations not later than 10 days after the effective date of the approval. All notices shall state the reason for and the amount of the deficiency, together with the director's determination that the expenditure for which the deficiency authorization is approved satisfies the criteria for emergency expenditures set forth in this section, and the basis for that determination.

(f) Each notification of deficiency or emergency expenditure shall include a determination by the Director of Finance as to whether the expenditure was considered in a legislative budget committee and formal action was taken to not approve the expenditure within the previous fiscal year.

(g) The Department of Finance shall provide copies of all requests from agencies to spend at rates that will result in a deficiency appropriation, in an aggregate amount for the 2003-04 fiscal year that exceeds \$500,000, to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house of the Legislature that considers appropriations. The department shall submit these copies within 15 working days of receipt. The transmittal of this information to the Legislature shall not be construed by the requesting agency as approval of the deficiency request.

(h) The Department of Finance shall provide deficiency bill updates to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house of the Legislature that considers appropriations if requested by the Legislature or as deemed necessary by the Department of Finance.

CONTROLLER STEVE WESTLY

STATE OF CALIFORNIA

300 Capitol Mall
Sacramento, CA 95814
916.445.3028
www.controller.ca.gov

FOR IMMEDIATE RELEASE:
DECEMBER 17, 2003

CONTACT: STEVEN FISHER OR
STACEY RAGLAND
916-324-2356

WESTLY SUPPORTS VLF BACKFILL

Sacramento, CA – State Controller Steve Westly today issued the following statement in response to the Governor's decision regarding restoration of the Vehicle License Fee backfill for local governments.

"Our police officers and firefighters must not be held hostage," Westly said. "This is an appropriate but temporary solution. The Governor and Legislature now have six months to cut waste and solve California's fiscal crisis."

"The State has a legal obligation to continue the backfill and to ensure that local governments are kept whole. The Administration's proposal accomplishes this legal objective through the end of this fiscal year," said Rick Chivaro, Chief Counsel to the State Controller's Office.

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HERB J. WESSON, JR.
SPEAKER *of the* ASSEMBLY

CONTACT: Paul Hefner
office: (916) 319-2408

FOR IMMEDIATE RELEASE
December 18, 2003

SPEAKER WESSON ISSUES STATEMENT ON GOVERNOR'S ACTIONS ON VLF BACKFILL

SACRAMENTO — Today Assembly Speaker Herb J. Wesson Jr. (D-Los Angeles/Culver City) released the following statement regarding Governor Arnold Schwarzenegger's actions on the VLF backfill:

"Democrats have always fought to protect local governments, because we know they provide vital services like police officers, firefighters, libraries and parks."

"The Governor is learning that every action on the budget has consequences. While the Governor's actions will help our cities and counties get what they need today, I'm concerned that his decision deepens our budget deficit and is bound to hurt someone else tomorrow. The most fundamental question is unanswered: where is the money coming from?"

"Government is about checks and balances, not just checks. We must make sure that the check the Governor writes today won't be cashed at the expense of our school children, our sick and disabled and our elderly tomorrow."

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